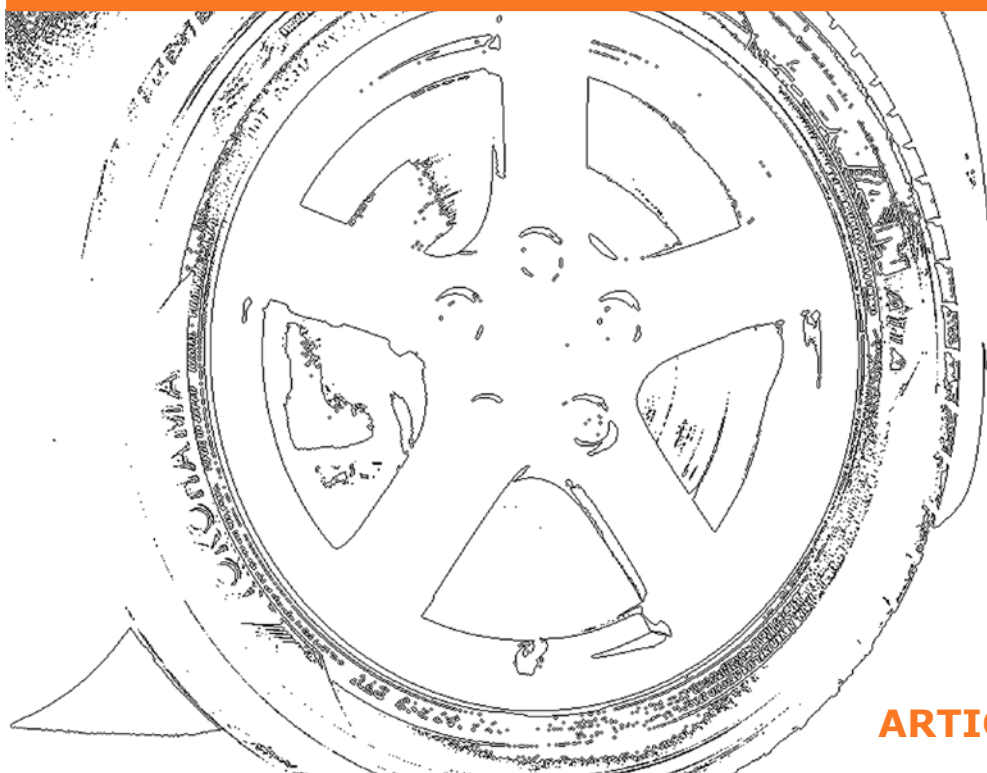


# Knowledge

# BANK



**ARTICLE 34**

Using a daily rental company

# Using a daily rental company

## Daily hire

### Features

Daily hire (vehicle rental) is a useful and cost-effective way to buy mobility for your staff. You get the car or van when you need it and someone else has to worry about depreciation, road tax and maintenance. Whether you need a car for a day, week or month, the daily hire companies are waiting for your call.

It may be cheaper to use daily hire than allow your employees to use their own cars and claim mileage reimbursement. It may be safer, too, as daily hire cars rented from recognised companies are likely to be well maintained, something that you may not be able to say about your employees' own cars.

Daily hire is the most visible part of the vehicle leasing industry. We are all used to seeing car rental company sites across the country and particularly at airports where several outlets can normally be found, all lined up in a row.

Some daily hire companies are manufacturer-owned, some have exclusive deals with specific manufacturers, while others will trawl the market for the best deal at the time, regardless of the manufacturer. The daily hire market is very competitive. By shopping around you should get a good deal, with good volume discounts if you are likely to be a big user.

With so much choice around, how do you choose the right supplier? As with all services, it's best not to choose solely on the basis of price. If you are going to rent a lot of vehicles, consider the quality of the supplier's administration, the range of cars offered and the availability of one-way rentals.

You will also have to decide whether to choose a local company or one of the national networks.

The biggest names in car rental appear to be everywhere and you might be forgiven for thinking they make up the whole market. In fact, there are hundreds of smaller independent suppliers nationwide that

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can often offer a friendly, local, tailor-made service you might value more than a big brand name.

The national players have big networks and promote the fact that they have many branches around the country. In some cases these are owned by the 'brand' you are dealing with (the nationally recognisable name) but in many cases branches are operated by franchisees – independent companies that own the right to trade in the name of the brand owner in a particular area.

Normally that does not prove a problem but there have been occasional reports that some franchisees are less than happy to allow you to drop off a car at another franchisee's depot. It may take some time for them to get it back.

A car rented from a reputable company will have been properly serviced and will be roadworthy. However, it might not be in perfect condition. Rental companies will routinely rent you a car showing bodywork damage and this will be marked on the vehicle condition report when you take delivery of the car. You (or the driver) will want to inspect the car on delivery and double-check the accuracy of the condition report to avoid problems later.

You should also check that the driver is insured to drive the vehicle, either covered by your motor insurance or insurance bought from the daily hire company.

Generally, rental companies will deliver a car with a full tank of petrol and expect you to return it to them with a full tank. If the tank is not full they will charge to fill it up, usually at a price significantly in excess of normal pump prices.

You need a new vehicle for your fleet. You or the driver identify a particular model that seems, on paper, to meet your requirements, but you are worried that it might not be ideal in practice.

In this situation many fleet managers will ask for a test drive then make their decision. Others will ask the dealer or manufacturer for the loan of a demonstration vehicle.

## Checking driver licences

However, rather than using the vehicle for a few hours or a couple of weeks, why not rent one for a couple of months? This will give you a much better chance to check out the vehicle in real life situations. It will not cost you that much and could help avoid an expensive mistake.

## Rental agreements

Most daily hire companies in the UK are members of the BVRLA. While each member company is free to draft its own rental agreement, the BVRLA has published a 'model' agreement for use by its members. This is updated periodically and represents best practice. It is produced in collaboration with the Office of Fair Trading to ensure it protects consumers.

The OFT is a part of the Department of Trade and Industry. It is run by the Director General of Fair Trading and has powers to prevent the use of rental and other contracts that contain unfair contract terms. If it discovers abuse it can obtain a High Court injunction to prevent that abuse.

If a contract contains unfair terms and conditions it is not binding on the hirer under the Unfair Terms in Consumer Contracts Regulations 1994. These regulations say:

'Any pre-drafted (that is, non-negotiable) contract must be written in plain, intelligible English, without jargon or obscure words, avoiding misleading clauses, e.g. the rental agreement must use 'you' rather than 'the lessee'. The hirer must be given time to read and understand the agreement at the rental counter.'

## The BVRLA model rental agreement

This will not be reproduced here in full but a copy, together with guidance notes, is available from the BVRLA.

In brief, it says:

- The customer's responsibilities must be clearly set out in the hire agreement
- The rental company's responsibilities should be clearly stated
- The customer must look after the vehicle, return it at the agreed place and time, pay for damage to the interior and not leave personal belongings
- Plain English should be used, for example 'we' not 'the lessor'

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- The rental company guarantees that the car is roadworthy at the start of the rental. It cannot exclude liability for personal injury or death, it is not responsible for consequential loss if the car fails to perform and it should make clear what its damage waiver (CDW) and theft waiver programmes do and do not cover
- The customer should initial a box saying 'yes' or 'no' to indicate the options chosen

The Consumers' Association says that it is good rental practice for the hirer to be encouraged to read the agreement prior to signing

### BVRLA Recommended Best Practice for the Rental Industry

In addition to the model agreement, the BVRLA has issued a document: Recommended Best Practice For The Rental Industry – A Guide For Corporate Customers.

Once again, the full BVRLA text is not included here.

The guide says:

- Rental rates and mileage charges must be clearly identified.
- Rentals will continue until the vehicle is returned or, if a total loss, until the rental company receives the value of the vehicle.
- You must pay for fuel. If provided by the rental company, fuel prices must be displayed at the rental company's premises.
- You must pay all fines. If the rental company becomes involved it will be entitled to recharge these to you plus a fee.
- Rental charges include mainland breakdown cover.
- The rental company must only accept an order it can meet. If events outside its control mean that it cannot supply the vehicle it will try to source another vehicle from elsewhere.
- The rental company cannot guarantee that a particular vehicle will be available but will use its best efforts to supply the vehicle specified.
- Delivery, collection and extension arrangements and charges must be clearly stated.
- Vehicle condition should be agreed at hand-over.
- The vehicle must be returned in the condition it was delivered. If it has been soiled the rental company can charge for special cleaning.

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- The hirer is responsible for their personal property.
- If you wish to insure the car, the rental company must first be satisfied with the extent of the cover. If you arrange the insurance and the car is damaged the rental company will arrange the repair and invoice you.
- The rental company may refuse to hire vehicles to some drivers.
- You are responsible if the car is in an accident when driven by an unauthorised driver.
- If the vehicle is damaged or stolen while in your possession, and as a result of this it cannot be rented out, they can charge you for loss of use.

### Daily hire brokers

If you want to hire a car for a short period you might decide to approach one of the local or national car rental companies direct. Alternatively, you might decide to approach one of the organisations that operate as intermediaries between hirers and car hire companies, and ask them to arrange the car hire for you. There are a number of intermediaries or brokers in this market. Many leasing companies operate as daily hire brokers; they do so in order to provide a 'one-stop-shop' for their clients' mobility needs. There are also a number of brokers who are independent of the leasing companies.

There are clearly some advantages in using a broker. The most obvious one is price; the broker can shop around and find the cheapest price for you, saving you the need to do so. A less obvious advantage is that a broker can gain access to the combined rental fleets and branch networks of many car hire companies, so if you want a particular vehicle at a particular time and a particular place, they are more likely to be able to obtain this than any single daily hire company. To put this into perspective the largest UK daily hire company operates 50,000 vehicles from 300 branches, but a broker can give you simultaneous access to many daily hire companies, more than 100,000 vehicles and more than 1,000 branches. So going via a broker can make good operational sense.

This comes at a cost, of course; the broker has to make a profit. Yet in many cases this profit will come from the discount the broker has negotiated with the daily hire companies, which are based on the broker's huge order volumes and which would not be available to any but the largest organisations. So, in fact, going via a broker could save you money, though as in all areas of fleet you should shop around,

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compare prices and decide which option works best for you.

There isn't much margin for a broker in an individual car hire booking. After all, the average booking is only for a few days and the rental is not going to be a huge amount. Therefore the broker has to administer the booking in the most cost-effective way possible, and this means that many of these companies use very slick IT systems that match the client's booking with the car hire company's vehicles whilst also finding the cheapest solution for you.

### Issues with daily hire

The relationship between the daily hire industry and motor manufacturers is interesting.

It is well known that there is much more vehicle manufacturing capacity in the world than the market requires, yet manufacturers seem reluctant to close down factories. This may be because they want to be able to meet peak demand, or because of union issues or whatever. Perhaps it doesn't even matter. The key point is that we produce too many cars and vans. Fields are full of them.

Manufacturers have to come up with all manner of marketing strategies to encourage us to buy them.

The problem, of course, is that manufacturers only make new cars. By the time a car has sat around in a field for six months they still want to sell it to us as a new car. There would be good demand for that used car in the used car market - at an auction, say - but manufacturers would not dare to put such low mileage cars into the auctions in big numbers. If it became public knowledge that large numbers of 'very nearly new' cars were available at 'very nearly new' mileages and still within their warranty mileage, the public would flock in droves to buy them and the retail market would collapse.

Yet the manufacturers do something very similar to this - they sell these cars to daily hire companies at huge discounts. The only proviso is that the hire companies have to hold on to the cars for a minimum period, perhaps four or six months. At the end of that period they can sell them. And they do sell them, often for prices close to or more than they paid in the first place. This means the rental companies suffer

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little or no depreciation on the cars they sell. Fortunately, most manufacturers limit the number of vehicles they will put into the market in this way, in order to protect residual values.

By moving large numbers of cars through the daily hire market you might say the manufacturers manage to produce second-hand cars. And this is why most of the vehicles available on hire from daily hire companies are new, low mileage models.

*Is this arrangement fair? Yes, but there are losers.*

Prices fall when large numbers of nearly new cars are dumped on the used car market in this way. If a six month old car sells for 72% of its list price, a nine month old car has to sell for less, as does a year-old car and so on, right the way down to the three-year old car you are going to sell from your fleet. In other words, the knock-on effect of this approach is that residuals fall.

There are many who think the situation would be improved if manufacturers could shorten their supply cycles so cars could be manufactured to order within days, not months. Then they would not need to keep fields full of cars or 'manufacture' used cars.